



Entrepreneurial Opportunities in a Downturn - Can MBAs Rise to the Occasion?

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Abstract

The US and European economies are undergoing an extended recessionary period. The Indian economy doubtless feels the pressures and corporate in India are reacting to this. Past recessionary periods have spawned many a successful business and several have gone ahead to become today's giant corporations. What are the opportunities that such times offer an entrepreneur? Can fresh MBA graduates rise to them and build businesses? This article addresses these questions while reassuring the student that systematic innovation has a highly favorable environment in India.

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1. Introduction

For quite a while now, it's all around us – on TV, newspapers, conferences, talks – everywhere. US and European markets are going through one of the worst recessionary periods. Unemployment, lost profits and abandoned investments dominate the headlines. Media loves talking about it, managers have a good reason for non-budget performances and accountants are pleased because they have been talking cost cutting for so long.

How much does this affect the Indian businesses? No one can put a figure to it. Everyone agrees that we are affected. Cost cutting is actively pursued; job cuts are a reality, new jobs fewer. Capital is a scare resource; financiers want businesses to lower risks and postpone investments. And yet, the Divali season brings new cheer to all, stock markets are showing recovery, investments are flowing back and B-Schools are ever full with aspiring managers.

Déjà vu? Indeed! We have seen downturns before. What has always followed is a newer high, increased investment, more jobs. No reason to expect anything else this time.

The National Bureau of Economic Research (NBER, USA) defines a recession as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. (1)"

Last three Recessions and their Durations

3/01	-	11/01	8 months
7/90	-	3/91	8
7/81	-	10/82	16

Source : National Bureau of Economic Research, USA.

Past recessions have spawned scores of startups worldwide. Some of today's big corporations have started in downturns – Disney, HP, Microsoft and many others. Innovation has found its mark better in such situations. Downturns create a favorable environment for those who can find new ways for customer satisfaction. Systematic innovation does not have an easier time than this. And

invariably entrepreneurs score better in such periods for they look for change and build around the opportunity it offers. Capital may be hard to come by, not ideas. (*see box – Startups in a downturn*) There are some clear opportunity areas in a downturn:

2. Consumers Need a Class of Products that are Situation Driven.

Out-of-job employees may look for education and training to build their skills. In the US, sale of campers has gone up, because people live in them and travel job hunting – it's cheaper and more practical. Consumers are skeptical about their economic future with rising unemployment. Fluctuating prices and stock markets add to their woe. Safer and more trusted financial products are sought. Spending on leisure activities and entertainment increases. This spells opportunity - entrepreneurs seek out this change in the consumer and build their offerings around it.

3. Value Becomes an Increasingly Important Factor in Purchases.

Consumers buy on perceived value and this it does not remain static in recessions. He seeks increased net value - which means more utility or less price. The way a product or service satisfies his need is relooked. A clear opportunity for entrepreneurs to offer products and services with 'new value' and leading to 'new satisfaction'. History is replete with examples of entrepreneurs who have built successful businesses around economics and market needs, rather than around technology.

3.1 Consuming less of one creates a need for another.

Reduced air travel has increased travel by luxury coaches and a demand for video conferencing software services like Webex. If spending on mobile phone up-gradation has reduced, it can lead to increased sales of decorative face plates and other accessories. If new car purchases are being postponed, car paint shops may be the beneficiaries of this.

2 Acquisitions come easier.

There are more weak-kneed managements than you think. Sell-off is a considered exit route in western economies, and is finding ground in India too. Entrepreneurs scout for such low hanging fruits and are quick to grab them. There is a very good chance of identifying sound business ideas with poor managements. An acquired company brings along a wealth of insight as well as some loyal customers. Infrastructure and resources are a bonus.

3.3 Not all organizations react rationally in these times.

Many companies cut down spending on marketing, when this is the time to channelize your resources towards the customer. Travelling and customer visits are slashed and advertising budgets curtailed. While it is a good time to make friends with your suppliers and customers who are also holed up in similar situations, instead, organizations look for lower prices and revised credit and delivery terms and do everything possible that would leave a bad memory when better times follow. This is the time to hear your customers. Sore spots are more visible now, and products can be modified to increase value. And yet, many companies ignore customers. This leads to favorable positions for those who don't use this route. Competitors turn weaker and customer looks around for options.

3.4 Surplus resources offer lower prices.

When market demands reduce, it frees up machine time. Supply exceeds demand leading to spare manufacturing capacities. Contract manufacturing is considered to increase resource engagement and outsourcing can become a viable option. Entrepreneurs see the opportunity of utilizing such resources to lower their investments. When companies shut down offices, rents decrease. Ready to use factories are offered on lease. In short, an entrepreneur need not always invest to produce his offering.

All these, and many other factors are clearly in favor of the entrepreneur. He is in a unique position to build and offer products and services that satisfy the customer in a manner relevant to the economic situation. What is important is that the change should be identified and customer satisfaction opportunities sought. Those who actually harness this are the ones who go on to build sound competitive businesses. The market facts too are in favor of entrepreneurs - India is a nation

with one of the largest growing consumer base in the world. The last few years have seen a more evolved consumer. Literacy is on the rise. Today's jobs pay better, double income is not uncommon, internet and e-commerce have changed the way of distributing products with convenient payment possibilities. Spending power in India is increasing more than most American and European countries.

India is buying more top end cars than base models⁽²⁾ and internationally branded premium shoes than local, our children use play stations and iPods for entertainment. Lifestyle changes and consequent demand corrections are seen all around us.

Indeed, it is hard to believe that slowdowns pose more problems than opportunities for the innovative entrepreneur or even the corporate intrapreneurs. According to a research done by the Kauffman Foundation, more than half the companies on Fortune 500 list between 1929 and the present were started either during a recession or a bear market, or both. Nearly half the companies listed on the Inc. 500 list of fastest growing companies in 2008 were founded during an economic downturn ⁽³⁾.

While this should lead to more fresh MBAs opting out of placements, it is not quite so evident. The real competition for entrepreneurship is from the campus placements at the end of the MBA program. Are entrepreneurial opportunities fighting a losing battle with the fat pay cheques awaiting the new manager – within 30 days of leaving his B-school? This question will only be answered in time. While the challenges in building ventures remain the same, recessions pose equal, if not more business opportunities. And while the western markets are down, can the Indian entrepreneur seize this chance to build multi-national corporations?

Start-ups in downturns

During the recession of 1957, Digital Equipment, (later became DEC) set up shop in a Civil War-era wool mill. In 1957 Ken Olsen and Harlan Anderson two engineers left their MIT positions to start a company that was the first actual competition to IBM.

A \$70,000 Venture capital was provided by Georges Doriot (American Research and Development Corporation). AR&D later sold this investment for approximately \$450 million. A huge return indeed!

The early 1980s, was another recessionary period. Mitch Kapor always felt the personal computer was underutilized. He set out to create software tools for PCs , specifically focused at businesses productivity. In 1982 he founded Lotus.

Directly addressing business needs and providing a solution, he made first software program to demonstrate the value of a personal computer. Kapor showed the first

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